Welcome students, we proceed to our next module that is Module 11with regard to our DSC 5 Accounting, advanced Company Accounts, the title of your Unit is Internal Reconstruction; name of the module is Accounting Procedures and Journal Entries for Internal Reconstruction This is continuation to my earlier module where you are going to learn the proforma entries and accounting treatment. The outcome of this module: students, you'll be able to know the accounting treatment and the accounts to be prepared in the books of the company undergoing internal reconstruction scheme.

Accounting treatment for internal reconstruction involves preparation of the Journal, wherein we have done with some part of the proforma Journal entries in our module 10. In this module, we are going to continue the proforma entries, capital Reduction Account and the Balance Sheet.

I proceed to next transaction: when the rate of preference dividend is increased, what is to be noted here is that there is only change in the rate of preference dividend or name of the preference share. Say for example, the earlier name or the old name of the preference share in the old Balance Sheet was 10% from 10%, say the name of the new preference shares is raised to 12%. So in place of 10% preference shares you are going to have new preference share whose name will be 12% and the entry will be 10%Preference Share Capital A/C debit to 12% Preference Share Capital A/C.

Further, when Assets are taken over by Loan creditors where our company is supposed to pay money to the creditors but sometimes what happens instead of the cash payment the creditors take over assets of the company. As you are giving this asset to the creditors, the account to be debited is Creditors and the Asset account is to be credited.

Next Step is utilization of Provision for Taxation, Capital Reserves, and Securities premium A/C appearing on Liability side of B/S. As a part of internal reconstruction scheme, what we prepare is Capital Reduction Account, and when we talk about the Capital Reduction Account on the left hand side, you have all the items of your expenses losses and on the right hand side called the credit side you have all the items of your income/ gains /profitability. So in most of the cases when we prepare or when we solve our problems on topic called as internal reconstruction and when we prepare your capital reduction account the “by” /credit side of the account is more and the difference we transfer to Capital Reserve A/C, but in certain cases, or in some situation, what happens is that your debit side is more/ left hand side of the reduction account is more under such circumstances some additional adjustments are made available to you in the question and the adjustments are related to making use of either your provision for taxation which is appearing on the liability side of your balance sheet, or your capital reserve which is appearing on the liability side of your balance sheet or the securities premium account. That means these credit balances will be utilized by the company for the purpose of Capital Reduction Account. So as you're utilizing these credit balances, all these credit balances which company wants to use will be debited. We have taken items like Provision for Tax/ Capital Reserve/ Securities Premium Account, so all these items will be debited and what will be credited is Capital Reduction Account. This happens under special circumstances when debit side of your reduction account will be more and at times such adjustment will be made available to you in your question.

Further what you have is when penalty is paid. Now, when any penalty the companies pay, it is contingent unrecorded liability, not appearing in the books. As a result, every contingent liability when you pay, it's a loss expense to be debited to the Capital Reduction Account and what is to be credited his Bank Account.

Further you have when claim is recovered against contingent liability. The situation is exactly opposite to above step. When claim is recovered against contingent liability, such contingent liability is not incurring losses for the company. On the contrary, company gains on account of the contingent liability in this situation as a result, it's profitability to the company to be credited to Capital Reduction Account and what is to be debited is Bank Account. This is because there will be inflow of cash where Company will gain from such contingent liability.

Further we have refund of fees by the directors .The directors of the company refund the fees which were paid to them. When they are refunding what was paid to them, what is coming in is your Bank Account item being Income that will be credited to Capital Reduction A/C.

Further, Debenture holders take some assets and shares. Then we talk about long term borrowing under the title. The Debentures and the money payable to debenture holders are transferred from Debentures to Debenture holders Account. So it's a part of the scheme. Sometimes they're offered new shares. They are given cash. They are also given the asset as we're giving them the Asset what is to be credited is Asset Account. Because the Asset is going to go out from our company we are also issuing to them shares. That is why Share Capital will also be credited, and as we are giving these to Debenture holders what will be debited is Debentures Holders Account , that means the Dentures Holders A/C are debited and whatever you are going to give them will be credited and increase and decrease will go to Capital Reduction A/C.

We have step 29 when Preference Share Capital is exchanged for Equity Shares or Debentures. When preference share capital is exchanged for Equity Shares or Debentures, in this case we are talking about the Preference Share Capital. What we have in the Balance Sheet of the Company So these preference shareholders agreed to exchange their preferences for new equity shares of the company and also the new debentures of the company. As a result, preference share capital what is appearing in the old balance sheet will be debited and what will be credited is Equity Share Capital / the Debenture.

I proceed to point 30.When calls are made ,companies making a call as and when the call is made by the company Share Call Account will be debited in what will be credited is Share Capital Account.

As call is made by the company, at Point 31 the call which is made is to be collected and when we collect the money on account of the call made, what is debited is Bank Account and what is to be credited is Share Call Account to simplify further share call Account which was debited in point No. 30 will be credited accordingly Share call Account gets automatically cancelled.

We proceed further to point 32, when shares are forfeited or forfeiture of shares. We talk about the cancellation of shares and these forfeitures step a company undertakes because the shareholders have failed to pay the call money as a result what we have is your calls in arrears. So the entry for the same is share capital that is the money of your share on which the money pending is not paid .We are crediting forfeited shares account when we talk about the forfeited shares account the money paid and and calls in areas represent the money which is not paid. It represents money which is not paid. I repeat when we talk about the forfeiture of the share the shares which are forfeited by the company will be debited under the title share capital only that many shares with the called of Value. Further you have ‘To’ Forfeited Shares Account .Forfeited shares is the money already paid by the shareholder. And calls in areas are the money which is not paid by the shareholder.

Next we have point 33 where forfeited shares are issued, so whatever shares we had cancelled earlier, or the shares which we had forfeited earlier, the same has been reissued in the market at the new price. So when you reissue the shares, what is coming in is Bank Account. What we are debiting is Forfeited Shares Account and along with that what is credited is Share Capital Account. Bank will be debited to the extent of the money collected by the company and further what is debited is forfeited shares account which will be the difference and two shared capital.

Finally as a part of internal reconstruction scheme the main focus is the preparation of the Capital Reduction Account. So to know whether there is balancing figure in the Capital Reduction Account or not or to know where the credit side is more or not or whether the Account tallies or not, you need to prepare Capital Reduction Account. So let us go back to our Ledger account called as Capital Reduction Account so we're having pro formal Capital Reduction Account. we have this account and on the left hand side we have all those items which will be the items of losses and. Expenses and on the “By” side you will be having all those items of incomes,/ gains and profitability That is why whenever any sacrifice is made by the shareholder /debenture holders/ Creditors, it's an income /profit to the company that will come on the “BY” side of Capital Reduction

Account. Similarly, an increase in the value of asset is a profit to the company that will come to the ”BY” side of Capital Reduction Account. Similarly, when you write off losses, those losses what you are writing off or when there is fall in the value of asset or when there is depreciation on the asset or when you're paying you reconstruction expenses,/ contingent liability, all are the items of expenses and losses. So in the end based on your Journal entries as you're preparing your Capital Reduction Account, you will come to know on the basis of the posting from Journal to Ledger, whether you're “By” side of the Account is more or left hand side is more so if the ”By” side is more, the difference in the account we transfer to your Capital Reserve A/C. So we make the total of “BY” side, the total of “BY” side we enter on the left hand side called as Debit side and from that total we deduct all the items of expenses/ losses which are appearing on debit side in Capital Reduction Account.

Thank you.